

## Message from the Chair

I am pleased to present the 2000 Annual Report of Investments for the period ending June 30, 2000 to you, the participants and beneficiaries of this retirement trust fund.

The 12 months ending June 30, 2000 were challenging for investors. Market volatility increased significantly and investors were buffeted by large month to month swings in attitudes and preferences. On balance, returns were positive, although significantly below those recorded in many recent years. Importantly, the U.S. stock market broadened markedly. The average stock and the smaller company stock indexes outperformed the capitalization-weighted benchmarks such as the S&P 500. U.S. stocks registered a total return of 7.24% as measured by the Standard & Poor 500 Stock Index, while the Russell 2000 Stock Index (comprised of the smallest 2000 of the top 3000 companies ranked by market capitalization) returned 14.32%. International stocks, as measured by the MSCI-EAFE Index, provided a very attractive 17.15% total return. The real estate markets continued to show solid income and appreciation. Rising interest rates resulted in poor bond total returns.

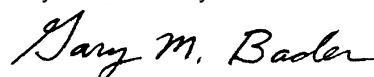
TRS successfully met these challenges with a well-diversified investment approach. TRS posted very attractive total returns that handsomely exceeded policy targets. In each asset class level (with the exception of international fixed income), ASPIB's managers exceeded the benchmark returns.

The retirement funds continued to show good performance results for fiscal year 2000. TRS registered a full year return of 10.15%. While the fund's actual return for the fiscal year exceeded the actuarial earnings target of 8.25%, it also comfortably outperformed the policy benchmark target of 8.96%. Over the longer term, fund performance exceeds the returns of the policy benchmark, and funding status continues to well-exceed the funding status of the average pension fund, including funding for future health care obligations not accounted for in many pension fund plans.

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. The asset allocation plan adopted by the trustees on March 24, 1999 called for an investment distribution as follows: 41% in domestic equities, 17% in international equities, 30% in domestic fixed income, 5% in international fixed income, and 7% in real estate.

ASPIB represents over 60,000 participants and beneficiaries. The trustees strongly believe that you should be kept well informed about the performance of your retirement funds, and about what we as fiduciaries are doing on your behalf. To this end, we are proud of the ASPIB web site, which can be accessed at <http://www.revenue.state.ak.us/treasury/aspib/index.htm>. We continue to encourage member participation at our meetings, and welcome your letters and comments.

On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.



Gary M. Bader, Chair

## ALASKA STATE PENSION INVESTMENT BOARD



### **Gary M. Bader, Chair**

PERS Representative

Gary M. Bader, Chair, was elected by the Public Employees' Retirement System. Mr. Bader has held numerous positions in State government including three years in the Office of Management and Budget and seven years in the Department of Administration, where he was Deputy Commissioner and Director of Retirement and Benefits. He is currently Superintendent of Schools for the Juneau School District. Mr. Bader has a B.S. in Business Administration and a master's degree in Education Administration. He was previously employed with a major Wall Street investment firm where he was licensed with the New York Stock Exchange. Mr. Bader's term expires December 31, 2002.



### **Jeffrey E. Sinz, Vice Chair**

Appointed by the Governor

Jeffrey E. Sinz, Vice Chair, was appointed to the board by Governor Knowles. Mr. Sinz is currently Director of Finance for the Kenai Peninsula Borough. He has over twenty years experience in public sector finance including thirteen years with the Municipality of Anchorage where he was Municipal Accounting Officer, Director of Finance for the Anchorage Telephone Utility, Finance Manager for the Solid Waste Services Utility, and a Senior Budget Analyst for the municipal general government. He also worked for two years as a financial planner and supervisor with the Alaska Railroad Corporation, and for five years as a financial administrator with a Wisconsin public school district. Mr. Sinz currently serves on the Board of Directors for the Kenai Peninsula Economic Development District and the Alaska Municipal League Investment Pool. He has an MBA in Management from the University of Alaska-Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. Mr. Sinz's term expires December 31, 2000.



### **William "Riley" Snell, Secretary**

Appointed by the Governor

William (Riley) Snell, Secretary, was appointed to the board by Governor Knowles. Mr. Snell has held numerous positions in State government. He served as the Executive Director of the Alaska Industrial Development and Export Authority (AIDEA) from July 1992 until November of 1996 overseeing banking and development programs. Four years prior to the Executive Director position, Riley served as Deputy Director-Development at AIDEA. From 1985 until July 1989 he served as Deputy Commissioner for the Central Region of the Department of Transportation and Public Facilities. Riley possesses over 27 years of experience in State Transportation and Public Facilities Development and Public Financing. Currently Riley is Vice President and General Manager of Cable and Entertainment for General Communications Inc. (GCI). His responsibilities at GCI include CATV product management as well as construction and maintenance of all outside plant facilities for the company. Mr. Snell's term expires December 31, 2002.



### **Gail R. Schubert**

Appointed by the Governor

Gail R. Schubert was appointed to the board by Governor Knowles. She is currently a partner for the law firm of Foster, Pepper, Rubini & Reeves in Anchorage. Her practice includes health care and fisheries issues, tax, estate planning, and corporation law. From 1992 to 1995, Ms. Schubert practiced law at Birch, Horton, Bittner & Cherot, and prior to that, from 1982 to 1992, Ms. Schubert practiced law in New York at the firms of Rogers & Wells, Fried & Frank, Harris, Shriver & Jacobson, and at the Federal Reserve Bank of New York. Ms. Schubert attended the School of Law at Cornell University, the Johnson School of Management (MBA) at Cornell, and Stanford University. She served on Governor Knowles' Fiscal Policy Transition Team, and serves on the Alaska Native Heritage Center, and on the boards of the Bering Straits Native Corporation, Akeela Treatment Services, and the Alaska Native Justice Center. Ms. Schubert's term expires December 31, 2003.



### **Wilson L. Condon**

Statutory Representative

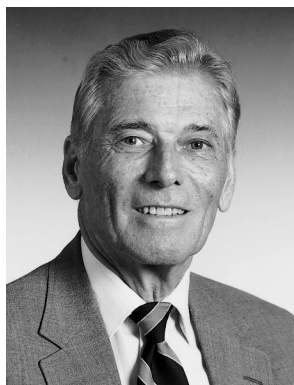
Wilson L. Condon was appointed Revenue Commissioner in February 1995. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. He was a partner in a private law firm from 1983-1995. Wilson was lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980-1982 and as Deputy Attorney General from 1975-1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. As Revenue Commissioner, he also sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation.



### **Dorothy Wells**

TRS Representative

Dorothy Wells was elected by the Teachers' Retirement System. A resident of Alaska for 37 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her undergraduate degree from the University of Minnesota and did graduate work both there and at the University of Alaska-Fairbanks. Ms. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Ms. Wells' term expires December 31, 2001.



### **Merritt C. Olson**

TRS Representative

Merritt C. Olson served as a member of the Teachers' Retirement System Board for 14 years, a portion of that time as Chair. He has been an Alaska resident for 46 years and resides in Anchorage. Appointed by Governor Egan to serve on the committee that organized the Student Loan Fund, he also served as a member of AARP's State Legislative Committee. Now a retired secondary mathematics teacher from the Anchorage schools and adjunct instructor of psychology at Alaska Methodist University and the University of Alaska-Anchorage, Mr. Olson earned his Ph. D. from Rutgers University and was a Fulbright Scholar in 1957-58. He is Past President of NEA-Alaska/Retired and served on the NEA-Retired (national) Advisory Council for six years. Mr. Olson's term expires December 31, 2003.



### **James "Pat" Wellington**

PERS Representative

James "Pat" Wellington was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2004.

<b>Department of Revenue Treasury Division S T A F F</b>		
<b>Commissioner</b> Wilson L. Condon	<b>Chief Investment Officer</b> John R. Jenks, CFA	<b>Investment Officers</b> Lee Livermore, CFA, Marketable Debt Bob Mitchell Steve Sykes Christine Veal
<b>Deputy Commissioner</b> Neil Slotnick	<b>Comptroller</b> Betty Martin, CPA	
	<b>ASPIB Liaison Officer</b> Judy Hall	<b>Cash Management</b> Michelle M. Daugherty, MBA, CPA, CCM
<b>External Money Managers and Consultants</b>		
<b>Investment Consultants</b> Callan Associates Inc. <i>San Francisco, CA</i> The Townsend Group <i>Denver, CO</i>	<b>Domestic Equity Small Capitalization</b> Capital Guardian Trust Co. <i>San Francisco, CA</i> Dresdner RCM Global Investors <i>San Francisco, CA</i> John McStay Investment Counsel <i>Dallas, TX</i>	
<b>Domestic Fixed Income</b> BlackRock Financial Management, Inc. <i>New York, NY</i>	<b>Domestic Equity Index Fund</b> State Street Global Advisors <i>Boston, MA</i>	
<b>Domestic Equity Large Capitalization</b> Ark Asset Management Co., Inc. <i>New York, NY</i> American Express Asset Management Group <i>Minneapolis, MN</i> Capital Guardian Trust Co. <i>Los Angeles, CA</i> Dresdner RCM Global Investors <i>San Francisco, CA</i> Invesco Capital Management, Inc. <i>Atlanta, GA</i> McKinley Capital Management, Inc. <i>Anchorage, AK</i> Tukman Capital Management, Inc. <i>San Francisco, CA</i>	<b>Domestic Enhanced Index</b> Invesco Capital Management, Inc. <i>New York, NY</i>	
	<b>Emerging Markets</b> Capital Guardian Trust Co. <i>Los Angeles, CA</i> J.P. Morgan Investment Management, Inc. <i>New York, NY</i>	
	<b>Global Equity</b> Lazard Freres Asset Management <i>New York, NY</i>	
	<b>International Equity—EAFE</b> Bank of Ireland Asset Management (US) Ltd <i>Santa Monica, CA</i> Brandes Investment Partners, L.P. <i>San Diego, CA</i>	

## External Money Managers and Consultants (con't)

### International Equity—European

Citibank Global Asset Management  
*London, England*

### International Equity—Pacific Basin EX Japan

Invesco Asia Limited  
*Hong Kong*  
Wellington Management Co. LLP  
*Boston, MA*

### International Fixed Income

Delaware International Advisers Ltd.  
*London, England*

### Private Equity

Abbott Capital Management, L.P.  
*New York, NY*

### Performance Measurement

Callan Associates Inc.  
*Denver, CO*

### Real Estate Management—Commingled Funds

Heitman Capital Management  
*Chicago, IL*  
JP Morgan Investment Management Inc.  
*New York, NY*  
Sentinel Real Estate Corporation  
*New York, NY*  
USB Realty Investors, LLC  
*Hartford, CT*

### Real Estate—Core Separate Accounts

PM Realty Advisors  
*Newport Beach, CA*  
Sentinel Real Estate Corporation  
*New York, NY*  
USB Realty Investors, LLC  
*San Francisco, CA*

### Real Estate—Value Added Separate Accounts

Invesco Realty Advisors  
*Dallas, TX*  
Lowe Enterprises Investment Management Inc.  
*Los Angeles, CA*

### Investment Advisory Council

Shlomo Benartzi  
*Los Angeles, CA*  
Jerrold Mitchell  
*Wayland, MA*  
Timothy O'Brien  
*Denver, CO*

### Independent Auditors

KPMG LLP  
*Anchorage, AK*

### Global Master Custodian

State Street Bank & Trust Co.  
*Boston, MA*

### Legal Counsel

Wohlforth, Vassar, Johnson & Brecht  
*Anchorage, AK*

### Supplemental Benefits System

Barclays Global Investors, N.A.  
*San Francisco, CA*  
Capital Guardian Trust Company  
*Los Angeles, CA*  
Citizens Funds  
*Portsmouth, NH*  
State Street Global Advisors  
*Boston, MA*  
T. Rowe Price Investment Services  
*Baltimore, MD*

### Deferred Compensation

Barclays Global Investors, N.A.  
*San Francisco, CA*  
Capital Guardian Trust Company  
*Los Angeles, CA*  
T. Rowe Price Investment Services  
*Baltimore, MD & Glen Allen, VA*

## Teachers' Retirement System Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

### INVESTMENT OVERVIEW

The Alaska State Pension Investment Board's (ASPIB) investments continued to earn double-digit returns for the Teachers' Retirement System (TRS). For Fiscal Year 2000, TRS earned 10.15%, down slightly from 10.67% in Fiscal Year 1999. The annualized return for the last five years was 13.61%, well ahead of the 8.25% actuarial assumption rate.

For FY00, the TRS investment portfolio continued to benefit from the bull market in global equities. For the year, the U.S. equity portfolio earned 10.41% and the international equity portfolio returned 20.59% (versus 16.56% and 14.75%, respectively in FY1999). The U.S. fixed-income market rebounded in the last six months of the fiscal year to recover from a poor first half to generate a 4.56% return, up from last year's modest return of 2.28%.

ASPIB continued the systematic increase in TRS' investments in real estate and private equity. The real estate portfolio earned 8.43% for FY00 versus 10.56% in FY99. TRS' private equity investments, while only 2% of the portfolio, came on strong to generate a 49.21% return.

### DOMESTIC ECONOMY

The U.S. economy surged during FY00, up 6.1% over FY99, which was itself up 4.1% over FY98. The strong job market gave consumers the confidence to go on a spending binge last year. During FY00, the economy created an average of 251,000 jobs a month compared to 268,000 per month in FY99. Heavy census worker hiring in the spring of this year distorts this number on the high side. Even though the pace of job growth slowed this year, the overall unemployment rate ratcheted down to 4.1% from 4.3% in June of 1999.

The housing sector prospered as the low jobless rate gave people the confidence to build homes. Sales of new homes averaged 897,000 in FY00 up from 800,000 the year before. Sales of existing homes also remained strong and finished the year at 5.1 million units, down from the record pace of 5.5 million units in FY99. Housing prices rose modestly with the median price up 2.4% versus a rise of 4.3% last year. Retail sales had another strong year, up 8.2% versus an increase of 7.8% in FY99.

Even after 10 years of economic growth, inflation remained tame. However, the inflation trend picked up with the Consumer Price Index (CPI) rising 3.7% in FY00 compared to only 2.0% in FY99. The Producer Price Index (PPI) was also higher at 4.3% versus 1.4% last year. Much of those increases are due to the surge in energy prices. Interestingly, the low price for West Texas Intermediate crude in the last twelve months was its closing level on the last day of FY99 of \$19.13 per barrel. The high price for the FY00 was \$32.47, exactly 12 months later on June 30, 2000. Taking out the surge in energy prices, the core-CPI rose a more moderate 2.4% and the core-PPI was up only 1.4%.

Business activity in the U.S. continued to dominate the world economy. Even with a rebound in Asia and Europe the U.S. trade deficit ballooned to \$323 billion in FY00, up from \$200 billion in FY99. This deficit is just over 3% of the gross national product, up from 2% last year. The strong U.S. dollar helped attract investments from foreign investors in amounts sufficient to fund the trade deficit.

The Federal Reserve reversed its monetary policy from easing during FY99 to one of tightening in FY00. In June of 1999 the Fed raised the overnight funds rate by 0.25%, the first of six rate hikes that eventually took the yield from its initial level of 4.75% to 6.50% at FY00 year end. The last hike was 0.50% on May 16 and the markets have, to date, interpreted this to reflect the end of the Federal

## Teachers' Retirement System Investment Report

Reserves tightening phase. The Fed has been particularly concerned about the tight labor markets in the U.S. and less focused on the rise in oil prices.

### EQUITIES

The TRS portfolio continued to benefit from the strong U.S. equity markets, earning a 10.41% rate of return for the fiscal year. The annualized return for the last five years was 20.58%.

As in previous years, large-company growth-oriented managers generated excellent returns relative to those generated by managers with a value mandate for large companies. Small-company growth-oriented managers also provided excellent returns to the pension funds, rebounding from FY99. For the year, the median large-company growth manager earned 22.7% and the average large-company value manager lost -7.5%. The same story was true in smaller capitalization companies with median returns of 54.1% for growth-oriented managers and only 1.0% median results for those invested in value-oriented companies.

Returns for international managers were strong across most major regions. Pacific Basin median manager returns were north of 21% and European managers earned close to 22%. Those invested in Japanese stocks had an excellent year with the median managers returning over 36%. For the year, the median core-international equity manager gained 21.2%, handily beating the Morgan Stanley EAFE Index return of 17.2%.

As for TRS, its international equity portfolio earned just slightly less than the median manager with a return of 20.59%. The annualized return for the past five years was 13.82%.

### FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 25% of the total assets of TRS as of June 30, 2000. The fixed-income portfolio uses a

core-oriented strategy investing in U.S. Treasury securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-backed securities. On April 1, 2000, the benchmark for the TRS bond portfolio was changed from the Lehman Brothers Government/Corporate index to the Lehman Brothers Aggregate Bond Index.

FY00 started out with a positive tone after surviving the events that roiled the domestic and international bond markets during FY99. In the fall of 1998, fixed income markets were impacted by currency devaluations in Asia and Russia. Exacerbating the crisis was the near-demise of hedge fund manager Long Term Capital Management. These events caused volatility to increase in the fixed-income markets and took corporate, high-yield, and emerging market bond spreads to historical wides.

To combat those financial problems, the Federal Reserve lowered interest rates three times during the first half of FY99. This and other worldwide intervention helped re-establish the growth path of the global economy. The strength of the domestic economy was such that by the last day of FY99, the Fed began a program of raising rates. Over the course of FY00, the Fed ratcheted up the overnight funds rate six times taking it from 4.75% to 6.50%.

FY00 was a particularly interesting year for the bond markets because of the numerous crosscurrents. As mentioned, monetary policy was restrictive with the Federal Reserve raising interest rates. On the other hand, due to the budget surplus, the U.S. Treasury was issuing fewer bonds than were maturing and was even buying back some securities in the open market. The idea that the government might actually pay off the national debt pushed down the yields of longer Treasury securities at the same time that Fed policy was pushing up the yields on shorter notes. This caused the Treasury curve to invert for the first time since 1989. At its peak inversion for FY00, the 2-year Treasury note was yielding 75 basis points more than the 30-year Treasury bond.



## Teachers' Retirement System Investment Report

The other important crosscurrent was the divergence between yields for U.S. Treasuries and those for agency, corporate and mortgage bonds. In the second half of FY00, the yields on U.S. Treasury securities came down while the yields of other sectors held steady or increased slightly. With projected budgets surpluses mounting into the trillions of dollars, investors behaved like the U.S. Treasury debt market was going to disappear. U.S. Treasuries became disconnected from the other sectors of the bond market and were the best performing sector in FY00.

Strong bond portfolio results during the second half of FY00 (4.36%) combined with virtually flat performance for the first half (0.14%) to generate a moderate 4.56% fiscal year return for TRS.

The international fixed-income portfolio represented just under 5% of the total assets of TRS. During FY00, the international bond portfolio had a loss of -3.27%, compared to a gain in the Salomon Brothers Non U.S. Government Index of 2.41%. The strength of the U.S. economy and the dollar made it hard going for international fixed-income markets in FY00. Global economies continued to recover but the specter of higher oil prices began to weigh heavily upon the outlook, particularly for the Asian countries.

The Euro continued to struggle in FY00. Introduced at the end of calendar year 1998, the Euro slid 13% against the U.S. dollar in its first six months of existence. During FY00 the Euro fell from \$1.0351 to \$0.9525, another drop of 8%. The low point was reached in May at \$0.8895. The European Central Bank has been forced to raise rates to support the Euro and combat the inflation that comes with a weak currency.

### PRIVATE MARKETS (REAL ESTATE AND PRIVATE EQUITY)

In FY 2000, TRS Real Estate and Private Equity investments increased by 75.2% to \$332.4 million.

The funded and committed positions in both programs are over 50% of the combined TRS target allocation of 11%. The characteristics of these investments offer attractive risks and returns, and help to diversify the total TRS portfolio.

#### *Real Estate*

At the end of FY 2000, TRS had 5.5% of its portfolio invested in real estate, compared to a target level of 8%. During the year, two new Separate Account Managers were added, one investing in "core properties" and the other in "value enhanced properties." The real estate portfolio is well diversified in terms of property type and geography.

Total returns for FY 2000 were slightly ahead of expectations. The nature of the Separate Account Program provides a higher percentage of cash returns in earlier years, and cash and appreciation during latter years as the properties mature. For FY 2000, the total return for real estate, net of fees, was 8.43%. The three-year and five-year returns were 11.95% and 11.36%, respectively.

Real estate fundamentals remain good, with demand and supply in relative balance. Reflecting better information gathered by the real estate community about current occupancy and rents, industry observers anticipate modest increases in the national supply of office buildings, shopping centers, industrial buildings and apartments, over the next few years. Assuming that the economy continues to be healthy, thus causing growth in demand for space, real estate fundamentals would remain favorable. However, the supply of funds seeking real estate investment has grown to the point where too many dollars are competing for too few projects. The resulting increase in the pricing of existing properties has reached levels where the purchase of these projects may not produce targeted investment returns. Thus, it is anticipated that ASPIB's future commitment level may decline moderately as the Fund becomes more selective in real estate investments.



## Teachers' Retirement System Investment Report

### *Private Equity*

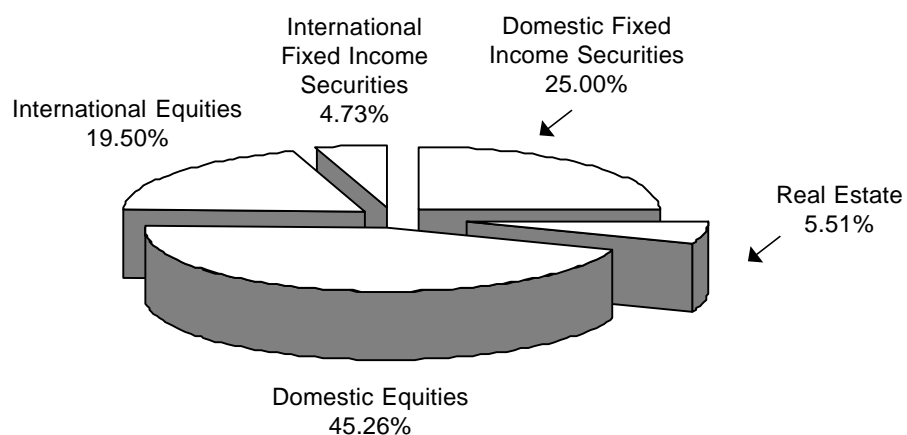
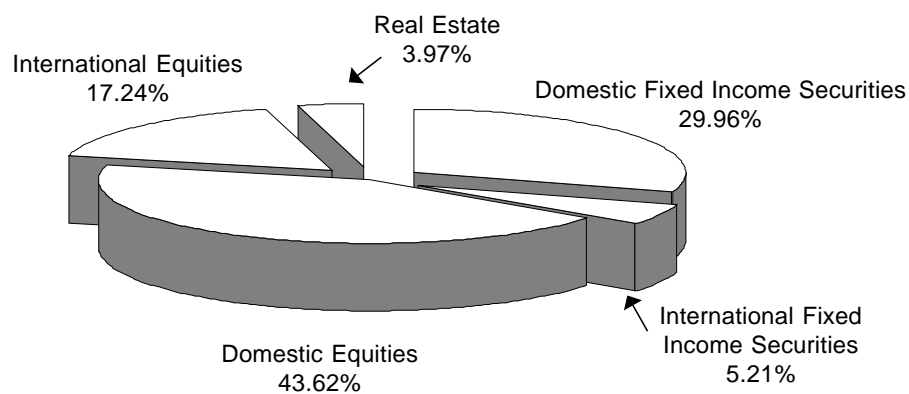
At year-end FY 2000, TRS investment in private-equity limited partnerships was 1.9% of its' total portfolio, compared to a long-term target of 3.0%. TRS mandate is to invest in private-equity limited partnership interests in professionally managed private-equity funds (Venture Capital, Leveraged Buyouts, Restructuring, Special Situations, Subordinated Debt and International). As of 6/30/00, the cost of TRS investment was \$86.8 million, an increase of 286.1% from the prior year-end level. For FY 2000, Private Equity had a total return of 49.2%, led by returns in Venture Capital and Special Situations. The portfolio is well diversified by type of investment and by type of company.

TRS investment history in Private Equity is now two and one half years old. The portfolio is designed to provide superior long-term returns from these investments. However, the returns from Private Equity are expected to be somewhat volatile, especially in the earlier years of the program, due to the nature of the investment and accounting conventions to measure the performance of the investments. In early years, an investment might

well show negative returns because the investment may be in start up companies where capital investment is high and operating losses can occur. As the companies mature, profitability should be achieved and grow, thus increasing the value of the company and the TRS investment. This type of investment profile is often referred to as the "J curve effect."

A factor affecting the future of the Private-Equity market has been a sharp increase in the amount of institutional capital seeking the attractive returns expected for this type of investment. The net result is increased competition for the best investment opportunities and a possible reduction in anticipated investment returns. However, many institutions have or are reaching their allocation level for Private Equity, which could ameliorate this condition. A second factor, the volatility of the NASDAQ market in the year 2000, could affect total returns as investors reduce their anticipated returns for dot.com and technology companies. Despite these factors, the outlook for attractive returns in Private Equity remains good.

<b>Teachers' Retirement System</b> <b>Schedule of Investment Results</b> <b>Fiscal Years Ended June 30</b>							
	1996	1997	1998	1999	2000	Annualized	
						3 Year	5 Year
<b>Total Fund</b>							
TRS	14.35%	18.12%	14.83%	10.67%	10.15%	11.87%	13.61%
<i>Actuarial Earnings Rate</i>	8.00%	8.25%	8.25%	8.25%	8.25%	N/A	N/A
<b>U.S. Common Stock Returns</b>							
TRS Domestic Equities	25.13%	27.43%	24.21%	16.56%	10.41%	16.93%	20.58%
<i>S&amp;P 500</i>	26.14%	34.66%	30.27%	22.76%	7.24%	19.67%	23.80%
<b>International Stock Returns</b>							
TRS International Equities	15.78%	18.47%	.66%	14.75%	20.59%	11.68%	13.82%
<i>Morgan Stanley Capital International EAFE</i>	13.28%	12.84%	6.10%	7.62%	18.11%	9.46%	11.12%
<b>Domestic Fixed Income</b>							
TRS	4.57%	7.96%	11.52%	2.28%	4.56%	6.05%	6.13%
<i>Lehman Brothers Aggregate Index*</i>	4.65%	7.76%	11.28%	2.69%	1.69%	6.79%	7.13%
<b>International Fixed Income</b>							
TRS	-	-	.36%	5.27%	(3.27)%	.73%	-
<i>Salomon Non-U.S. Government</i>	-	-	.89%	4.87%	2.42	-	-
<b>Real Estate Equity</b>							
TRS	7.68%	13.37%	16.99%	10.56%	8.44%	11.95%	11.36%
<i>NCREIF</i>	9.57%	11.29%	17.21%	11.24%	11.61%	13.93%	12.10%
<p>S&amp;P 500 = Standard &amp; Poor's Domestic Equity Stock Index  EAFE = Europe, Australia, and Far East Stock Index  NCREIF = National Council of Real Estate Investment Fiduciaries Index</p> <p>The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.</p> <p><i>*Lehman Brothers Government/Corporate Index prior to 3/31/2000.</i></p>							

**Teachers' Retirement System  
Actual Asset Allocation****June 30, 2000****June 30, 1999**

### Alaska State Pension Investment Board Top Ten Holdings by Asset Type June 30, 2000

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the 10 largest holdings of the four major pools by asset type.

	Rank	Fair Value	Security	Coupon	Due	Credit Rating
<b>Domestic Fixed Income</b>	1	154,350,400	Federal National Mtg Assn.	7.000%	7/31/30***	AAA
	2	140,204,550	U.S. Treasury Bond	8.125%	8/15/21	AAA
	3	122,914,000	U.S. Treasury Bond	10.375%	11/15/12	AAA
	4	100,913,840	Fed Home Loan Mtg Corp.	6.500%	7/31/30***	AAA
	5	97,609,000	Federal National Mtg Assn.	6.500%	7/31/30***	AAA
	6	93,953,000	Federal National Mtg Assn.	5.125%	2/13/04	AAA
	7	88,961,050	U.S. Treasury Bond	8.750%	5/15/17	AAA
	8	87,730,500	U.S. Treasury Bond	12.000%	8/15/13	AAA
	9	68,578,500	Federal National Mtg Assn.	6.000%	7/31/30***	AAA
	10	61,374,219	Gov Nat Mortgage Assn.	6.500%	6/15/30	AAA
<b>International Fixed Income</b>	1	71,844,325	German Federal Republic	4.000%	7/4/09	AAA
	2	59,988,497	German Federal Republic	6.000%	1/4/07	AAA
	3	49,937,692	Netherlands	8.750%	9/15/01	AAA
	4	46,707,247	Spain	5.150%	7/30/09	AA2
	5	39,850,460	German Federal Republic	6.500%	7/15/03	AAA
	6	37,407,338	New Zealand	8.000%	11/15/06	AAA
	7	31,175,230	Republic of Italy	4.500%	5/1/09	AA3
	8	24,551,860	Netherlands	5.750%	2/15/07	AAA
	9	23,599,700	Australia Commonwealth	6.750%	11/15/06	AAA
	10	22,901,270	New Zealand	7.000%	7/15/09	AAA**
<b>Domestic Equities</b>	1	144,001,000	General Electric Co.			
	2	110,038,181	Intel Corp.			
	3	96,302,178	American Intl Group Inc.			
	4	94,920,000	Microsoft Corp.			
	5	91,185,600	Pfizer, Inc.			
	6	85,618,688	Cisco Sys, Inc.			
	7	76,673,933	Exxon Mobil Corp.			
	8	74,708,614	Citigroup Inc.			
	9	73,402,725	Wal Mart Stores Inc.			
	10	60,688,750	American Home Products			
<b>International Equities</b>	1	88,048,127	Emerging Markets Growth Fund*			
	2	62,171,410	MGT Emerging Markets Equity Fund*			
	3	57,827,895	ING Groep NV			
	4	46,862,088	Vodafone Airtouch			
	5	46,013,932	Total Fina Elf			
	6	42,639,177	Alcatel			
	7	42,054,156	Hitachi			
	8	32,738,278	Diageo			
	9	32,564,362	Nestle SA			
	10	28,938,474	Allied Zurich			

\* The PERS and TRS retirement trust funds hold an equity share in the Emerging Markets Equity Pool.

\*\* Standard and Poor's rating.

\*\*\* Pending purchases in 30 year mortgage pools in which specific securities are not yet issued. Maturity date may vary based upon actual pools purchased.

**Teachers' Retirement System**  
**Schedule of Investment Management Fees**  
**Year Ended June 30, 2000**

	<b>Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2000</b>	<b>Fees</b>
External Management Fees		
Domestic Fixed		
BlackRock	\$ 133,058,944	\$ 103,309
International Fixed		
Delaware	613,491,292	269,802
Alaska Retirement Fixed Income		
State Street Global Advisors	3,287,777,805	118,725
Domestic Equity		
American Express Asset Management*	-	195,110
Ark Asset Management*	-	337,324
Capital Guardian Trust	1,183,524,557	761,179
Invesco	474,177,958	443,716
Invesco Enhanced	328,015,562	49,000
John McStay	381,557,695	762,881
McKinley Capital	324,886,912	317,098
Dresdner RCM	1,062,476,891	1,117,539
State Street Global Advisors	1,152,586,305	87,357
Tukman	359,853,189	176,136
Total	5,267,079,069	4,247,340
Alternative Investments		
Abbott Capital	251,556,716	267,849
International Equity		
Bank of Ireland	569,119,393	559,131
Brandes	674,098,039	787,610
Citibank	313,770,804	514,503
Invesco	111,501,065	208,145
Wellington	134,360,009	219,325
Total	1,802,849,310	2,288,714
Global Equity		
Lazard	1,066,353,897	1,166,026

\*Inactivated on April 1, 2000

**Teachers' Retirement System  
Schedule of Investment Management Fees  
Year Ended June 30, 2000**

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2000 (con't)	<u>Fees (con't)</u>
<b>Other Management Fees</b>		
Emerging Market		
Capital Guardian Trust	\$ 88,048,127	\$ 171,029
JP Morgan	<u>62,176,728</u>	<u>211,149</u>
Total	<u>150,224,855</u>	<u>382,178</u>
Total External Management Fees	<u><b>\$12,572,391,888</b></u>	<u>8,843,943</u>
Custodian		
State Street Corporation		<u>372,676</u>
Investment Advisory		
Callan Associates		25,620
Investment Advisory Council		24,173
The Townsend Group		<u>40,250</u>
Total		<u>90,043</u>
Investment Performance Measurement		
Callan Associates		<u>52,836</u>
Total Other Management Fees		<u>515,555</u>
Total Investment Management Fees		<u><b>\$ 9,359,498</b></u>

<b>Teachers' Retirement System Investment Summary Schedule June 30, 2000</b>					
	<b>Asset Allocation Policy</b>	<b>Range</b>	<b>Market Value</b>	<b>% of Asset Class</b>	<b>% of Total Assets</b>
<b>Participation in Pools Owning Fixed Income Securities</b>					
Domestic					
Short-Term Fixed Income Pool			\$ 612,422	0.05%	0.01%
Retirement Fixed Income Pool			1,070,522,653	95.94%	23.99%
External Domestic Fixed Income Pool			44,696,899	4.01%	1.00%
Total Domestic Fixed Income	30%	20-40%	1,115,831,974	100.00%	25.00%
International					
International Fixed Income Pool	5%	2-8%	210,946,463	100.00%	4.73%
Total Fixed Income Securities	35%	22-48%	1,326,778,437		29.73%
<b>Participation in Pools Owning Domestic Equities</b>					
<b>Small cap<sup>(1)</sup> and Alternative Investments</b>					
In Domestic Equity Pool			521,260,605	25.80%	11.68%
In Private Equity Pool			86,790,330	4.30%	1.94%
Total Small Cap Domestic Equities and Alternative Investment	12%	9-15%	608,050,935	30.10%	13.62%
<b>Large cap</b>					
In Domestic Equity Pool-active			911,328,150	45.11%	20.42%
In Domestic Equity Pool-passive			500,706,157	24.79%	11.22%
Total Large Cap Domestic Equities	29%	24-34%	1,412,034,307	69.90%	31.64%
Total Domestic Equities	41%	33-49%	2,020,035,242	100.00%	45.26%
<b>Participation in Pools Owning International Equities</b>					
International Equity Pool			817,453,781	93.96%	18.32%
Emerging Markets EquityPool			52,581,338	6.04%	1.18%
Total International Equities	17%	13-21%	870,035,119	100.00%	19.50%
<b>Participation in Real Estate</b>					
Mortgages, net of allowances			530,438	0.22%	0.01%
Real Estate Pool			245,623,161	99.78%	5.50%
Total Real Estate	7%	4-10%	246,153,599	100.00%	5.51%
Total Invested Assets	100%		\$ 4,463,002,397		100.00%

<sup>(1)</sup> Includes only securities held by those managers with small cap mandates. Does not include small cap holdings.



**Teachers' Retirement System  
Credit Risk of Investments  
Pension Trust Funds  
(Expressed in Thousands)  
June 30, 2000**

	Category			Fair Value
	1	2	3	
Marketable debt securities				
Domestic fixed income	\$ 1,115,220			1,115,220
International fixed income	210,946			210,946
Equity securities				
Domestic equities	1,933,295			1,933,295
International equities	817,454			817,454
Emerging market equities	-	52,581	-	52,581
	<u>\$ 4,076,915</u>	<u>\$ 52,581</u>	<u>\$ -</u>	<u>4,129,496</u>
Not Categorized				
Cash and cash equivalents				612
Venture capital limited partnerships				86,790
Real estate equities				245,623
Mortgage-related assets				<u>531</u>
Total investments not categorized				<u>333,556</u>
Total investments				<u><u>4,463,052</u></u>

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Fund's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 - Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 - Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The Fund's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Fund's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Fund participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like Emerging Markets Equity Pool which are considered to be Category 2, and (B) shares in the Private Equity Pool and the Real Estate Equity Pool which, like the Fund's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

**Alaska State Pension Investment Board  
Recaptured Commission Fees Received in FY00**

	<u>Domestic Equity</u>	<u>International Equity</u>	<u>Total</u>
PERS	\$ 1,028,971	560,471	1,589,442
TRS	529,910	288,961	818,871
Judicial	6,677	5,341	12,018
Military	<u>1,400</u>	<u>631</u>	<u>2,031</u>
Total	<u><b>\$ 1,566,958</b></u>	<u><b>855,404</b></u>	<u><b>2,422,362</b></u>

The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to “recapture” a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the Alaska State Pension Investment Board (ASPIB) augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January have resulted from international equity trades.

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